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Report of Executive Committee on valuation...

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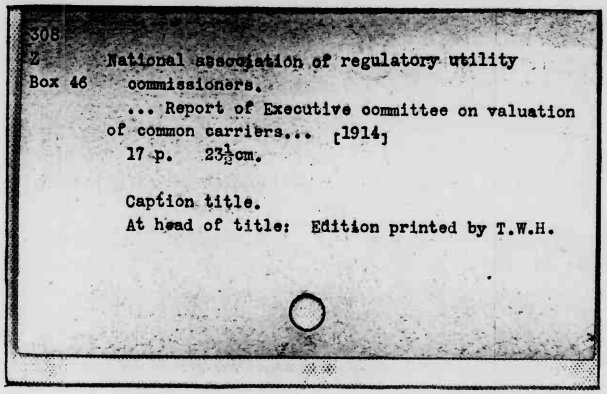
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Prof. E. R. A. Seligman

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REPORT OF EXECUTIVE COMMITTEE ON VALUATION OF COMMON CARRIERS.

The Executive Committee of the General Committee on Physical Valuation beg to submit the following report:

At the last convention of the National Association of Railway Commissioners, a resolution was adopted authorizing the appointment by the president of the Association of a committee on physical valuation, to consist of fifteen members, three from each of the five valuation districts into which the United States had been divided by the Interstate Commerce Commission. Soon after the adjournment of the convention, President Finn notified the following commissioners of their appointment:

CLYDE B. AITCHISON, of Oregon,
J. M. ATKINSON, of Missouri,
H. F. BARTINE, of Nevada,
ORVILLE F. BERRY, of Illinois,
HUDSON R. BURR, of Florida,
CHARLES M. CANDLER, of Georgia,
E. W. DOTY, of Ohio,
HALFORD ERICKSON, of Wisconsin,
JOHN M. ESHLEMAN, of California,
LAWTON T. HEMANS, of Michigan
GEORGE A. HENSHAW, of Oklahoma,
FRED J. MACLEOD, of Massachusetts,
MILO R. MALTBIE, of New York,
E. C. NILES, of New Hampshire,
WILLIAM D. WILLIAMS, of Texas.

Under the rules of the Association, President Finn is also a member of the committee, ex-officio. In accordance with the plan outlined at the annual meeting, the members in each valuation district were to constitute a sub-committee to deal with matters of interest to that district alone, and the chairmen of these sub-committees in the various districts were to constitute the executive committee, the following persons being selected as chairmen and, therefore, members of the executive committee:

Eastern District: Milo R. Maltbie, of New York.
Southern District: Charles M. Candler, of Georgia.

Central District: Orville F. Berry. of Illinois.
Western District: John M. Atkinson, of Missouri.
Pacific District: John M. Eshleman, of California.

The membership of the committees has remained unchanged during the year except that Hon. Clifford Thorne, of Iowa, has been appointed to succeed Commissioner Berry, both in the general committee and on the executive committee.

At the first meeting of the general committee, held in Chicago, December 10, 1913, Commissioner Erickson was elected chairman and Commissioner Doty secretary, the chairman being authorized to appoint a vice-chairman whenever he found it impracticable to act. The chairman and secretary of the general committee were made ex-officio members of the executive committee.

At this meeting a resolution was adopted authorizing the executive committee to represent the National Association in all matters connected with the physical valuation of the property of common carriers by the Interstate Commerce Commission, to call upon other members or experts of state commissions not represented on the committee to attend hearings and conferences held in connection with valuation work, to secure the fullest possible cooperation between all state commissions and the Interstate Commerce Commission, and in general to do everything which, in the judgment of the executive committee, might be considered necessary or advisable to protect and promote to the fullest possible degree the interests of the several states and of the public generally, so far as such interests may be affected by the valuation of common carriers.

At the first meeting of the executive committee, which was held in Washington, December 17, 1913, Hon. Milo R. Maltbie, of New York, was selected chairman. Only very general matters, relating to the work of the Department of Valuation of the Interstate Commerce Commission and methods for keeping the railroad commissions of the United States informed as to the progress of the work and of advising the Valuation Department of the Interstate Commerce Commission as to the position of the state commissions upon various matters, were discussed.

During the year, four conferences have been held in Washington, each one consisting of from one to three days, and generally two sessions have been held each day. The executive committee was represented at every one of these conferences. Upon many points the committee has advised with the members and

experts of several state commissions, and occasionally opinions have been secured from persons in private practice who had had wide experience in valuation work. So far as we have been able to ascertain, the Interstate Commerce Commission had not appraised any public utility prior to the enactment of the law under which common carriers are now being valued. Certain of the state commissioners have had considerable experience, and at the present moment many are engaged in valuation work, the tendency of legislation in the past few years having been to confer greater powers of investigation and appraisal upon commissions. The committee has, therefore, been able to advise the Department of Valuation of the I. C. C. not merely as representatives of public bodies interested in the success of the work, but as members of commissions which have already had considerable experience in the actual work of appraisal. From the staffs of the various commissions doing appraisal work, your committee has been able to secure valuable help and many useful suggestions. Further, in several instances, the decisions of the state commissions on valuation questions have been reviewed by the courts and, although these decisions have not always agreed and although in certain instances the decisions of state courts and of the lower federal courts have been overruled by the Supreme Court of the United States, many questions have thus been settled which inevitably arise in connection with valuation work

The executive committee has felt, therefore, that it has had a special duty to perform. It has recognized its obligation to place before the department of valuation of the I. C. C. the consensus of opinion of the various commissions upon appraisal work and the results of their experience. The committee has considered that it was entitled to speak with considerable force, in view of that experience and in view of the familiarity of the experts connected with the various state commissions with valuation work. The committee has been obliged to depend upon voluntary work, as it has had no funds with which to employ counsel, engineers, accountants and statisticians. Its work could doubtless have been made more complete and many points could have been worked out more in detail, if it had been possible to employ special experts.

At all of the conferences, the railroad companies have been ably represented by lawyers, engineers, accountants and other

experts. Usually the matters to be discussed have been classified into one of three groups, following the general division of the work by the department, viz., engineering, accounting and land. It is considered unnecessary to report upon the large number of detailed matters discussed in the conferences. A large part of the time, particularly of the earlier conferences, was utilized by the department in ascertaining what engineering, accounting, statistical and land data the various companies possessed, to what extent they could supply additional information where their present records were deficient, the places at which this information could be collected for examination, the most practical methods for completing the inventories, maps and diagrams of the physical property, the kind of right-of-way maps to be prepared, the forms to be used in field work, the composition and size of field parties, their housing and transportation, the extent of consultation with the companies' employees, etc., etc. These matters were doubtless important to the department, but they involved generally no important question of public policy. Your committee made suggestions upon many of these matters, but did not urge the adoption of any specific method or plan unless it was considered vital to the success or accuracy of the work.

Generally, the committee took the position that the department of valuation should report to the Interstate Commerce Commission the vital and fundamental facts necessary to a complete appraisal, but should not attempt to settle the questions of public policy, finance and law that are involved. These must be settled by the Interstate Commerce Commission, and if the department of valuation were to prejudge them and if the department were not in accord with the commission, much of the work done by the department might be useless or subject to extensive revision.

DEPRECIATION.

The discussion which has attended the use of the phrase "condition per cent." in many of the forms prepared by the engineers of the department is illustrative. The first forms submitted to the conferees contained a column with this heading. Others used the phrase "depreciation per cent.," which we were advised was intended to mean the same thing as "condition per cent." This phrase has persisted in all of the forms submitted up to and including the last conference held in June and has appeared in the latest pamphlet of instructions to field forces. The Act of Congress providing for the valuation of property of common carriers clearly contemplates that the Interstate Commerce Commission shall determine the amount of depreciation and shall deduct it in arriving at cost of reproduction less depreciation. It was, apparently, the plan of the department that the field forces should report the condition of the property in the form of a certain percentage. The committee took the position at the very beginning that the phrase had no specific meaning, that it was impracticable to ask the field forces to compute the percentage, that if it were synonymous with depreciation, it could not be determined merely by looking at the property and that if it were not synonymous with depreciation, it had no rightful place in the assembled forms but should be replaced by the word "depreciation," this being one of the things specially mentioned in the Act of Congress. Our reasons for this recommendation were many.

In the first place, inquiry developed no unanimity as to the meaning of "condition per cent." If one were to say that the condition per cent. of ties upon a certain division was 75, what would it indicate? Would it mean that one-quarter of the life of the ties had expired, or that three-quarters of them were as good as it was practicable to maintain them, or that one-quarter of them should be immediately replaced, or that the present value was 75 per cent. of the present cost of laying them, or that the average tie was about three-quarters as good as new? One might take any class of property, ask similar questions and obtain a variety of answers.

Secondly, "condition per cent." is evidently a matter of opinion, based upon data not reported to the department. It has been found by practical experience that engineers disagree very materially when shown a specific piece of property and asked to state its "condition per cent." In some cases, where it has been tried, the final result was secured by averaging the percentages given by various engineers which varied from 50 to 100 per cent. Any method that involves such results should only be adopted when it is certain that there is no other plan as good or better.

In the third place, it developed that there was a difference of opinion even in the department as to whether "condition per cent." had the same meaning as "depreciation." Apparently, the consensus of opinion is that the terms are not interchangeable and that the latter covers many factors not reflected by the

former. For example, it has been contended that if a piece of property were properly maintained, each part being renewed when worn out, its condition per cent. would be 100 and that it would have no depreciation whatever In other words, if an old-style wooden sleeping car were maintained in as good condition as possible, it would have a present value equal to its original cost or its present cost of reproduction new. This is obviously unsound not merely because an old car cannot possibly have as long a period of usefulness as a new car, but also because standards have changed and new wooden sleeping cars of the old type are no longer considered worth their cost. Certainly, the condition of the car would be only one factor in determining its present value, and expressing one factor in a percentage would not facilitate the determination of its fair value.

The committee recommended that special engineers be selected to examine all property to be appraised and that by units or classes, as conditions may require, such engineers should report whether the property is in first class operating condition or has been allowed to deteriorate through the failure to maintain it properly. If it is in first class operating condition, i. e., in as good condition as first class management could maintain it, having proper regard for efficient service and economy of operation, there would be no deferred maintenance. If the property is not in first class operating condition, then the engineers should report what repairs, alterations or changes are necessary to restore it to good condition and their cost, this cost being called "deferred maintenance." Of course, no piece of property can always be kept in 100 per cent condition. Paint will gradually grow old, parts will wear, and a piece of property cannot be repainted and worn parts replaced every moment. There is, however, a standard of good operating condition, and property allowed to deteriorate below such standard has a lower value.

In addition to deferred maintenance, certain other facts should be determined for each item or group of items. The date of acquisition, installation, construction or utilization should be given. If there is considerable difference between the time when an item is purchased or constructed and put into use, that fact should be noted. A study should be made of the practice of each company as to repairs, renewals, maintenance, and the various other factors affecting the period of usefulness or life of a piece of property. The records of the company should be examined to find how long things have actually been used—how long is the

time from construction to the scrap heap—the purpose being to determine the probable life or period of usefulness for each item or class in the inventory.

An estimate should also be made of the probable scrap value or yield to the company from the sale of property when it ceases to be of use or it is replaced by other property.

Certain of these items are ordinarily matters of record or can be obtained from some source. Others are matters of opinion, and the engineers should report what facts have been taken into account in reaching their conclusions. Of course, probable life is a matter of opinion and should be estimated only after a very broad and careful investigation, account being taken of all factors, such as progress in the arts, the demands of the public, the growth of the business, adequacy of system, etc.

When all of these factors have been reported, it will be possible for the Commission to determine how depreciation shall be computed. It is not presumed that there will be no instance where depreciation can be computed in a more direct way. The plan is applicable to property that is in use. Where property has been discarded and is ready for the scrap heap, it is obviously unnecessary to follow the same method; for property withdrawn from service has practically no value except as scrap, and it will probably be sufficient to establish its scrap value. Further, in some instances there may be property which is continually being bought and sold, where there is a clearly established market value; but this is not ordinarily the case, and these are exceptional rather than general instances.

INVENTORIES.

The preparation of inventories has naturally absorbed much attention, as it is the first step towards any complete appraisal. In our opinion, the burden of their preparation should rest primarily upon the companies, and they should prepare and submit to the department complete lists of all property. Every company ought to have such an inventory. It appeared at the start, however, that the railroad companies did not have complete lists, that in many instances even the records of their real estate holdings were incomplete, and that none of them had a full set of maps showing in detail the nature and amount of construction work that had been done upon their right of way.

The committee has contended that the preparation of an inventory is entirely separate and distinct from an appraisal of

such property, which would be obtained by affixing prices to the various items of the inventory. For example, the number and kind of cars which a company owns is a question of fact, assuming that the title is not in dispute, and there ought not to be any considerable difference between the engineers of the Interstate Commerce Commission and the engineers of a company as to the inventory; and the first step to be taken is the completion of a list of all property to be appraised.

The opinion was expressed at one of the conferences that it is the duty of the department of valuation to list all railroad property, and that if a company were to omit anything, or even to attempt to interfere with the work of the engineers of the department in making or checking an inventory, the department would be remiss, unless it hunted up every item. The committee took the position that as it is primarily the duty of the companies to keep an inventory of their property—to know what they own—the department can not be held responsible in case anything is overlooked.

The committee suggested that detailed descriptions of every piece of property are not necessary, that much time and labor can be saved by the use of designs, specifications and descriptions of standard articles furnished by builders and contractors, particularly in the case of rolling stock, bridges, culverts, track work and buildings of standard designs, these being referred to and identified in the inventory forms.

Considerable discussion has taken place as to the date which the inventories should bear. It is probable that if any one date is selected for the whole United States, it will be found ill-suited to conditions, because every inventory must be of a past date, and it should be as near the time of completion of the inventory as possible. If engineers were to undertake today to make an inventory and appraisal of the property as of January 1, 1910, they would find it very difficult, even though the companies had records that would clearly indicate what property was owned upon that date, for it would be almost impossible to determine what depreciation for a date so remote should be deducted, particularly in the case of property which had disappeared. Apparently, the only practicable method is to use a date at the end of a fiscal year and then to direct companies to keep their records in such a way that the inventory may be brought up to date at any moment without such a long examination as is necessary in case of an original inventory or appraisal.

It was suggested at one of the conferences by representatives of the companies that copies of field notes and inventories prepared by the department should be furnished to the railroads. Your committee stated that if the railroads were to have copies of such records, the respective railroad commissions would doubtless wish to have copies also. We understand that the department has not decided to give copies of all records to the companies, but that the latter will have an opportunity of examining the field notes of the engineers of the department, provided the companies will promptly report to what extent they accept or reject the records there made. This method of ascertaining what differences exist at the earliest opportunity, of determining whether the records are correct or erroneous, and of correcting immediately any errors of fact commends itself to the committee.

ABANDONED PROPERTY.

The subject of abandoned property has received considerable attention, and an order has been issued by the Interstate Commerce Commission requiring every railroad, on or before February 1, 1915, to file "complete and detailed schedules of all fixed physical property which it has abandoned prior to June 30, 1914, together with a complete and detailed statement of its claims with respect thereto. Such schedules shall show this property classified in accordance with the Interstate Commerce Commission's investment accounts, and shall give the physical units of the property, with the original cost of same to date of abandonment; also date of abandonment and disposition and present status of abandoned property. Carriers shall accompany such schedules with a descriptive list of all maps, profiles, or other records which refer to the property and which will serve to aid the Commission in identifying and examining the same, and upon request from the Commission shall file with it such maps, profiles, and other records or copies of the same as may be required."

The word "abandoned" should not, apparently, be taken too literally. The representatives of the railroads stated that in their opinion abandoned property is property which a company no longer owns or of which they no longer claim ownership. Thus, a circuitous right of way which has been used but for which a more direct line has been substituted would not be "abandoned property" if the company retained title, even though

the land were not used by the company for any purpose. The committee opposed the acceptance of this definition and maintained that although the choice of the phrase might be unfortunate and although "property withdrawn or retired from service" might be more accurate, it was intended to cover any property which the railroad had ceased to use advantageously. In other words, the phrase would include not only the bridge which had been replaced or the building which had been allowed to stand empty, but also old station structures which were occasionally used in part for storage purposes and which were not and would not be erected for such purposes when a less expensive structure would serve every purpose. The committee also contended that a structure which has ceased to exist is not property and ought not to be even considered.

EXTENT AND CHARACTER OF USE.

In connection with this subject, the committee pointed out what we believe to be a very important phase of the work. It is obvious that an appraisal should include all existing property regularly and necessarily used for railroad purposes and that property which has been discarded, abandoned or declared unfit for any future use need not be included. But between these two extremes there are many degrees of use. There is, for example, the old and nearly worn out engine which has been shunted to a siding in some out of the way place instead of being broken up or sold as scrap. There are cars which are used only in cases of emergency or occasionally throughout the year. There are buildings which are not used for the purposes for which they were originally constructed but which are utilized to a small degree. There is real estate which is being held for a possible future use. There are track connections which have been built upon property belonging to others but over which the railroad company has certain rights. There are track agreements of great variety and value.

Obviously, these various classes cannot all be valued upon the same basis, and distinctions must be made. If a deduction is to be made from cost for depreciation due to every cause, it would not greatly matter whether property about to be scrapped was put in in first instance at its scrap value or whether it was included in the total cost of reproduction new and depreciated to its scrap value. But there would be a difference in

the cost to reproduce new and, apparently, the company which had kept all its old rolling stock, etc., would have a larger original investment than the company which had scrapped and destroyed all its useless rolling stock as rapidly as it reached that point.

In order that there should be no misunderstanding and that the facts should clearly appear, the inventories, as they are prepared, should indicate the nature of use. In one class should be placed all of the property which is actually, necessarily and regularly used for railroad purposes. The property which is not used for railroad purposes and which is not held for railroad use (e. g., forest lands and coal mines) should be placed in another class. Contracts, trackage rights and other intangibles should also be separately and individually considered, and other classifications should be made or special inventories prepared showing the extent of use of all property which is not regularly and necessarily used for railroad purposes.

RETIREMENTS.

This subject borders upon that of withdrawals and retirements, and it is in this directior probably that the companies are more likely to err in keeping their capital accounts than any other. A record of additions and betterments is usually kept, for whether they are charged to capital account or the cost paid out of operating expenses, they involve expenditures and some entry must be made upon the books of the company. But property may be retired or withdrawn from use without any entry. The division superintendent may find rolling stock in such bad condition that it is sent to the scrap heap or allowed to disintegrate without any report to the accounting department of the company of such action. As a result, the assets of the company actually decrease, but the fixed capital account does not reflect the fact, no credit to capital and no corresponding charge to the depreciation fund or other reserve to offset the disappearance of assets having been made.

The committee has called this to the attention of the department and has urged that careful consideration be given to this point and that the department not only provide for such contingencies in its own work but that the Commission should take action which would provide for an accurate record and accounting of all retirements and withdrawals as soon as they occur.

LAND.

Thus far, probably less attention has been given in the conferences to the appraisal of real estate than to any other subject. In the early form submitted for consideration, there were the following headings:

Full Assessed Value of Right of Way.
Ratio Assessed Value to Market Value.
Market Value of Right of Way.
Ratio Railway to Market Value.
Total Railway Value.

Assuming that the appearance of these headings indicated that the land division would work along these lines, your committee filed a vigorous protest and pointed out that the form indicated a reversion to the idea which had been repudiated by the United States Supreme Court and that before any principle or method was adopted according to which land would be appraised, full opportunity should be given to the representatives of the railroad commissions to be heard, as we believed that they had very decided views on the subject and that these views would condemn the application of the "multiplier theory." The objectionable headings have not been used since and probably will not be made the basis of land valuation.

The committee has not always known how the work would be apportioned between the engineers, accountants and land appraisers, but we have urged that in some way the following data relating to land should be obtained (not of course excluding any other facts which the department considers necessary):

1. Complete inventory of all land owned, showing separately at time of inventory,

(a) Land used and useful wholly for railroad purposes;
(b) Land used and useful for railroad purposes in part showing nature and extent of such use;
(c) Land used for other than railroad purposes;
(d) Land not used for any purpose.

NOTE.—Care should be taken to show the extent of use and whether land is being held for possible future use or is uneconomically used at present.

2. Original cost and form of compensation.

3. Statement showing land donated or granted by public authorities and conditions of such grants

4. Statement of bequests of land from other sources and conditions of such bequests.

5. Facts as to structures upon land when acquired which were destroyed or utilized and how utilized.

6. Date of acquisition and dedication to railroad use.

7. Special assessments, such as those for sewers, streets, parks, etc.

8. Legal fees and other expenses connected with acquisition.

9. Amount of land sold or conveyed to others and facts as to such conveyance.

10. Compensation received in such cases.

11. Date of such sales or conveyances.

The forms submitted by the land appraisers of the department were not as complete as they probably will be when revised. One of the forms called for assessed values, which are often no indication of fair value or of original cost. It was suggested that a ratio might be found between assessed value and actual value which would be applied to assessed value to give present value. It may be possible that there are a few instances where such a plan would work, but as a general method it is unsound and unreliable.

The forms also called for a statement of average value per square foot. The committee insisted that in cities particularly average value for such a unit is a meaningless and useless term and would be of no aid in fixing values and would probably be of little use to any one. The limitations of the sales method were also pointed out by the committee, as generally sales are too few and too unreliable to give accurate results. Commissioner Doty explained to the conference the methods which he had followed in valuation of properties for many years and explained to the land attorneys of the department the methods and principles of the Somers system.

Apparently, it is the intention of the department to check up the deeds and papers showing the companies' titles, to investigate the leases and conveyances which have been made and to ascertain the extent to which lands owned are being used for railroad purposes. If this policy is followed, it will involve a tremendous amount of work.

The part of the department having to do with land matters was organized later than the other sections, which probably accounts for the small progress which has been made in real estate matters up to the time of the last conference.

SOURCE OF FUNDS.

At the last conference the question was asked, to what extent the companies should be required to furnish schedules and data representing existing property the cost of which had not been defrayed by the issuance of securities? The committee took the position that the companies themselves should state, or the accountants of the department should ascertain, to what extent existing property had been paid for (1) by the issuance of securities or other obligations, (2) out of surplus income, and (3) out of operating expenses. The suggestion brought forth the statement from the companies, that if a company owned property used for railroad purposes, it was entitled to have that property valued and that it did not matter whether or not its cost had been included in operating expenses. We replied that the discussion of this subject involved questions of public policy and of constitutional law which it was unnecessary to discuss at this time, but that the Interstate Commerce Commission should have before it a statement showing the sources of the funds used to pay for the property. If a company has included in its operating expenses items which it now asserts are part of its capital investment, it is in error. An expenditure cannot be an operating expense one day and a capital charge another according to the thesis which the company at that moment is attempting to maintain. Certainly, if it has included an item among operating expenses, it is incumbent upon the company to show wherein such act was wrong and why the Commission should in any rate case be compelled to allow it a return upon property paid for out of operating expenses.

It has been suggested by certain state commissioners that the same argument applies to property acquired through surplus income, and they may be right; but whatever may be the final disposition of the matter, and whatever the Interstate Commerce Commission may decide, it is the duty of the department, in our opinion, to show the source of the funds, at least to the extent of the three divisions above suggested.

Your committee has also urged that the extent to which public authorities, associations and individuals have donated property, or have contributed funds to the railroad companies should be clearly shown, the facts regarding such contributions, such as date, character, amount and use being clearly set forth. The amount of national aid has, of course, been exceedingly large. Many states and local subdivisions have contributed considerable sums to the construction of railroads, particularly in the western part of the United States. In some cases cities have paid for branches or made contributions to induce companies to change their proposed routes so as to pass through their districts. Individuals and associations have occasionally contributed toward the cost of stations, and in recent years large sums have been paid by cities and states toward the elimination of grade crossings. The investigation of the department should show what these contributions have been, even though the property donated or paid for now belongs to the railroad.

In this connection, the Interstate Commerce Commission has adopted a principle in the revised system of accounts recently put in force, which, in the opinion of the committee, is erroneous and which may be considered as binding upon the department of valuation. The new system provides that the entire cost of a piece of property shall be charged to capital account, and that any donations which companies or individuals may make toward such cost shall go to profit and loss account and thus become immediately available for dividends. To illustrate, take a station costing $50,000 where citizens of the community contribute one-half this cost. The company would, under the new system of accounts, be entitled to charge to capital account $50,000, to put $25,000 into its profit and loss account, and to declare a special dividend of that amount. The investor would have contributed net $25,000, but the capital account would stand at $50,000, and presumably, the company would be entitled to charge rates on the basis of property costing $50,000. The public would thus be compelled to pay a rate sufficient to earn a fair return, not only upon the investment of the company but upon the amount of money which had been contributed to the company

by the public. Why the stockholder is entitled to dividends which have not been earned and the public required to pay a return upon their own donations, is not explained.

The new system also permits a company which has been given a right of way by a community to charge to its capital account the *estimated value* of that right of way and to credit the same amount to profit and loss, thereby making an amount not earned and limited only by the wishes of the person who makes the estimate available for dividends. The opportunities which this affords for financial juggling suggest themselves, and accounts built on such a basis are not reliable. In our opinion, the principle is vicious and ought to be changed at once.

ORIGINAL COST TO DATE.

At one of the conferences, the chairman of this committee was asked to construe the phrase "original cost to date," used in the Act of Congress. The matter had not been considered by the committee and the opinion expressed was a personal one, but it is believed that it meets with the approval of the members of the committee who were not then present.

Apparently it has been contended by someone that the phrase includes not only the original cost of existing property, but the cost of all changes, extensions, additions and alterations from the date of original construction or acquisition to the present. For example, in the case of a building, it is apparently contended that the original cost of that building to date means the original cost of the original building plus all expenditures made thereon, even though such expenditures be in the way of repairs or maintenance charges.

This interpretation, in the opinion of the chairman, is incorrect. Original cost to date means the original cost of existing property as contrasted with present cost or cost to reproduce new. In the case of a building, it means the original cost of the original building plus the cost of additions and betterments, exclusive of all changes in the nature of replacements, renewals or repairs or reconstruction which do not add to the structure itself. The rearrangement of partitions, for example, should not be included in original cost to date, as such rearrangement adds nothing to the physical structure, although it may be better adapted to present use. In the case of a car which originally did not have air brakes, but has been equipped with modern appliances, cost to date means the original cost of the car plus the cost of the air brakes; but it does not include the cost of replacing the old equipment with new equipment of precisely the same character, or of new equipment slightly different in form but not increasing the carrying capacity or durability of the car itself. Any other interpretation would give a meaning to cost to date which would be of no utility in determining the present value of the property.

The committee wishes to express its appreciation of the courtesies received from the Department of Valuation, and particularly from Director Prouty. Our recommendations have received attention, and in many cases have been adopted. After further consideration by the department, we believe that many of those not yet endorsed will be approved.

October 23, 1914.

MILO R. MALTBIE, Chairman,
J. M. ATKINSON,
CHARLES M. CANDLER,
E. W. DOTY, ex-officio,
HALFORD ERICKSON, ex-officio,
JOHN M. ESHLEMAN,
CLIFFORD THORNE.

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